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SUBJECT: OFFICE OF ECONOMIC POLICY WEEKLY STATUS REPORT
OCTOBER 4, 1977

1. UNCTAD SUGAR CONFERENCE (CONFIDENTIAL)

NOW INTO ITS FOURTH WEEK, SUGAR CONFERENCE IS STILL UNABLE TO AGREE ON EXPORT QUOTAS, AND FAILURE REMAINS A STRONG POSSIBILITY. CUBA ABANDONED ITS INFLEXIBLE POSTURE OCTOBER 1 AND ACCEPTED, INTER ALIA, AN ANNUAL LIMIT OF 650,000 TONS TO SOCIALIST COUNTRIES IN ASIA. AUSTRALIA IS NOW THE MOST DISSATISFIED BECAUSE CURRENT QUOTA PROPOSALS WOULD REQUIRE IT TO CUT BACK PRODUCTION SHARPLY. GOA ALSO
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DOUBTS (AS DOES THE U.S. DELEGATION) THAT PROPOSED QUOTAS ARE SUFFICIENT TO ADJUST ADEQUATELY PRICE LEVELS. AS A RESULT, REGARDLESS OF THE OUTCOME OF THE CONFERENCE, THE U.S. MAY HAVE TO USE ITS EXISTING AUTHORITY TO IMPOSE TARIFFS IN ORDER TO PROTECT U.S. MARKET FROM LOW INTERNATIONAL SUGAR PRICES.

2. FY 78 FOREIGN ASSISTANCE APPROPRIATIONS (L-O-U)

PRESIDENT CARTER MET WITH APPROXIMATELY 100 CONGRESSMEN ON

SEPTEMBER 30 IN ORDER TO SEEK MODIFICATION OR REMOVAL OF SEVERAL SECTIONS OF THE FY 78 FOREIGN ASSISTANCE APPRO-

PRIATION BILL. TWO SECTIONS PROHIBIT U.S. CONTRIBUTIONS TO THE IFI'S FROM BEING USED TO ASSIST SEVERAL COUNTRIES, INCLUDING SRV, CAMBODIA AND LAOS, AND FROM DEVELOPING PALM OIL, CITRUS FRUIT AND SUGAR PRODUCTION. IFI MANAGEMENTS SAY THESE PROVISIONS WOULD LIKELY MAKE U.S. CONTRIBUTIONS UNACCEPTABLE. THE HOUSE-SENATE CONFERENCE COMMITTEE HAD EARLIER NOT BEEN ABLE TO RESOLVE THESE AND OTHER ISSUES. THE HOUSE WILL VOTE FIRST ON THE CONFERENCE REPORT. AS OF OCTOBER 4TH, NO VOTES HAVE BEEN TAKEN, BUT THERE COULD BE ONE AT ANY TIME.

3. STEEL (L-O-U)

A. FORMATION OF SOLOMON GROUP-

THE PRESIDENT HAS ASKED AN INTERAGENCY GROUP CHAIRED BY TREASURY UNDER SECRETARY SOLOMON TO GIVE HIM POLICY OPTIONS ON THE STEEL PROBLEM IN ABOUT 6-8 WEEKS. THE GROUP HAS A BROAD MANDATE AND ITS RECOMMENDATIONS INVOLVE DOMESTIC AS WELL AS TRADE ISSUES. THE STARTING POINT WILL BE CONFIDENTIAL

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BE A STUDY BY THE COUNCIL ON WAGE AND PRICE STABILITY DUE OCTOBER 5.

B. ANTI-DUMPING CASES-

IN AN ANTI-DUMPING CASE BROUGHT BY THE GILMORE STEEL CORP., TREASURY ANNOUNCED OCTOBER 3 A TENTATIVE DETERMINATION THAT JAPANESE PRODUCERS OF CARBON STEEL PLATE WERE DUMPING BY AN AVERAGE MARGIN OF 32 PERCENT (WHICH, BY LAW, INCLUDES A PROFIT ESTIMATE OF 8 PERCENT). TREASURY MUST MAKE A FINAL DETERMINATION ON SALES BELOW FAIR VALUE WITHIN 90 DAYS, AND THE INTERNATIONAL TRADE COMMISSION WILL HAVE 90 DAYS FROM THAT FINDING TO ESTABLISH INJURY. IMPORTS OF THIS PRODUCT FROM JAPAN ARE NOW LIABLE TO DUMPING DUTIES, IF INJURY IS FOUND. U.S. STEEL FILED A SIMILAR PETITION ON RELATED PRODUCTS FROM JAPAN TWO WEEKS AGO.

C. OECD AD HOC STEEL GROUP-

THE GROUP'S SECOND MEETING ON SEPT. 29-30 REACHED A CONSENSUS ON THE NATURE OF THE MAIN PROBLEMS AND AGREED ON THE NEED TO MONITOR PROBLEMS OF COMMON CONCERN. IN SIDE MEETINGS WITH THE EC AND JAPAN, THE JAPANESE INDICATED UNDERSTANDING OF THE U.S. SITUATION AND THE NEED FOR RAPID PROGRESS. THE EC DELEGATION, HOWEVER, HAD INTERNAL COORDINATION PROBLEMS AND RELUCTANTLY AGREED ONLY TO

DISCUSS POSSIBLE GOVERNMENTAL MEASURES AT SUBSEQUENT MEETINGS. THE NEXT MEETING IS SCHEDULED FOR NOV. 20 -

DEC 1.

4. COLOMBO PLAN (CP) (CONFIDENTIAL)

TOP DEPARTMENT OFFICIALS ARE STILL CONSIDERING OUR PROPOSAL THAT THE U.S. HOST IN WASHINGTON THE 1978 CP CONFIDENTIAL

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CONSULTATIVE COMMITTEE MEETING. THE U.S. HAD WITHDRAWN AN INVITATION TO HOST THE 1976 MEETING AND THE CP DIRECTOR REQUESTED THAT WE HOST THE 1978 MEETING. OUR EMBASSY AT COLOMBO REPORTS THAT THE U.S. IS ALREADY PAYING A POLITICAL PRICE FOR FAILING TO RESPOND TO THIS REQUEST BECAUSE IT IS BEING MISINTERPRETED AS AN INDICATION THAT THE U.S. NO LONGER SUPPORTS REGIONAL COOPERATION IN ECONOMIC DEVELOPMENT.

5. IMF/IBRD ANNUAL MEETING (UNCLASSIFIED)

THE GOVERNORS GENERALLY CONSENTED TO MCNAMARA'S PROPOSAL, WHICH HAD STRONG U.S. BACKING, THAT THE WORLD BANK SHOULD FOCUS ON BASIC HUMAN NEEDS. THERE WAS SUPPORT FOR THE IBRD'S CALL FOR A CAPITAL INCREASE OF DOLLARS 30 TO DOLLARS 40 BILLION OF WHICH 10 PERCENT WOULD BE PAID IN. NEGOTIATIONS HAVE NOT YET BEGUN ON THIS INCREASE. THE U.S. SUPPORTS AN INCREASE SUFFICIENT TO ENABLE THE BANK TO EXPAND ITS LENDING RATE IN REAL TERMS, BUT WE HAVE NOT YET DECIDED ON A PRECISE POSITION.

THE MEETING INDICATED GROWING SUPPORT FOR AN IMF QUOTA INCREASE IN THE HIGHER RANGE OF THE CONTEMPLATED INCREASE OF 25-50 PERCENT. THE U.S. POSITION IS THAT THE INCREASE SHOULD BE ADEQUATE AND UNIFORM, I.E., NO ADJUSTMENT IN INDIVIDUAL COUNTRY SHARES. THE INTERIM COMMITTEE IS EXPECTED TO DECIDE ON THE AMOUNT OF INCREASE AT ITS APRIL MEETING.

SECRETARY BLUMENTHAL IN HIS SPEECH TO THE MEETING EMPHASIZED THAT THE U.S. WOULD SUPPORT THE IBRD TO A GREATER EXTENT THEN IN THE RECENT PAST. THIS IS IN LINE WITH U.S. POLICY TO EMPHASIZE MULTILATERAL AID. HE ADDED CONFIDENTIAL

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THAT IFI SALARY LEVELS WERE TOO HIGH. TURNING TO ECONOMIC CONDITIONS, THE SECRETARY ESTIMATED THAT THE U.S. CURRENT ACCOUNT DEFICIT WOULD REACH DOLLARS 16-20 BILLION IN 1977 DUE IN LARGE PART TO LARGE OIL CONSUMPTION AND

THE COMPARATIVELY HIGH RATE OF U.S. ECONOMIC GROWTH AND MORE RESTRAINED EXPANSION IN MANY OTHER COUNTRIES. HE PROJECTED A REAL U.S. GROWTH OF 5.5 PERCENT IN 1977 AND CONTINUED STRONG GROWTH IN 1978.

6. ADB PRESIDENT'S VIEWS (CONFIDENTIAL)

PRESIDENT YOSHIDA MET WITH TREASURY AND STATE OFFICIALS ON THE SIDELINES OF THE IMF/IBRD ANNUAL MEETING LAST WEEK TO EXCHANGE VIEWS ON ASIAN DEVELOPMENT BANK ISSUES. TREASURY INDICATED THAT THE U.S. WOULD SEEK A SUPPLEMENTAL APPROPRIATION TO RESTORE, INTER ALIA, THE FUNDS FOR THE ADB WHICH CONGRESS RECENTLY CUT. YOSHIDA SAID THE OCT. 20-21 KYOTO MEETING ON THE ASIAN DEVELOPMENT FUND REPLENISHMENT WOULD BE AN EXPLORATORY DISCUSSION; HE PLANNED TWO FURTHER NEGOTIATING SESSIONS BEFORE REACHING AGREEMENT. TREASURY WANTS TO CONSULT WITH CONGRESS IN ORDER TO OBTAIN PRIOR CONGRESSIONAL SUPPORT FOR ANY U.S. REPLENISHMENT COMMITMENT. YOSHIDA PERSONALLY PREFERS HAVING ONLY TWO VICE PRESIDENTS AND WOULD LIKE THE SECOND ONE TO DEAL WITH FINANCIAL MATTERS. HE ASKED THE U.S. TO PROPOSE SEVERAL CANDIDATES FOR THIS POSITION. THE ADB WOULD PROCEED SLOWLY WITH LOAN PROPOSALS FOR VIETNAM, YOS;IDA SAID. HE HOPED TO REDISTRIBUTE ADF LENDING SO

THAT MARGINALLY ELIGIBLE COUNTRIES - INDONESIA, PHILIPPINES AND THAILAND - WOULD RECEIVE SOME SOFT LOAN FUNDS.

7. SINGAPORE'S REACTION TO NEW OPIC GUIDELINES (CONFIDENTIAL)

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IN FINAL CONVERSATION WITH AMBASSADOR BEFORE DEPARTURE FOR WASHINGTON, PRIME MINISTER LEE EXPRESSED UNHAPPINESS OVER SINGAPORE'S QUOTE EXCLUSION UNQUOTE FROM OPIC COVERAGE AND INDICATED THAT THIS WAS ONE OF VERY FEW BILATERAL ISSUES HE MIGHT RAISE IN WASHI;GTON. HE SAID THAT U.S. QUOTE AMBIVALENCE UNQUOTE TOWARD INVESTMENT ABROAD WAS UNDERCUTTING SINGAPORE'S STATUS AS A MODEL FOR DEVELOPMENT UNDER THE FREE ENTERPRISE SYSTEM. MEETING WITH UNDER SECRETARY COOPER IN WASHINGTON, FINANCE MINISTER HON ARGUED IN THE SAME VEIN; HE SAW THE THREAT OF POLITICAL INSTABILITY IN THE REGION AS JUSTIFICATION FOR CONTINUING OPIC PROGRAMS.

8. U.S.-ASEAN DELS CONSULT IN GENEVA (L-O-U)

TAKING THE INITIATIVE ON THE U.S.-ASEAN AGREEMENT FOR INTENSIFIED CONSULTATIONS IN GENEVA ON THE MTN AND OTHER TRADE MATTERS, THE U.S. MTN DEL BRIEFED THE ASEAN GENEVA

REPS ON THE STATUS OF THE TARIFF PLAN DISCUSSIONS. THE U.S. DEL OFFERED INTENSIFIED CONSULTATIONS ON THE TROPICAL PRODUCTS NEGOTIATIONS WHENEVER ASEAN IS READY. WE HAVE BEEN ASKING THE LDCS FOR SOME RECIPROCITY. THE

ASEAN REPS INDICATED THAT, AS A RESULT OF MANILA TALKS, THE ASEAN COUNTRIES ARE CONSIDERING CONTRIBUTIONS TO MTN AND OUR DEL EXPECTS ASEAN TO REQUEST CONSULTATIONS WHEN IYS LIST IS READY.

9. GSP (UNCLASSIFIED)

ONE ASEAN COUNTRY, THE PHILIPPINES, HAS SUBMITTED AN UPDATED GSP REQUEST LIST BY THE OCTOBER 3 DEADLINE. AN ANNOUNCEMENT OF PRODUCTS TO BE CONSIDERED FOR GSP IS CONFIDENTIAL

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SCHEDULED FOR OCTOBER 7. THIS WILL BE THE ONLY OPPORTUNITY TO ADD PRODUCTS OF INTEREST TO ASEAN TO THE GSP LIST BEFORE THE NEXT U.S.-ASEAN CONSULTATIONS, TENTATIVELY SCHEDULED FOR JUNE, 1978.

.0. COMMON FUND (L-O-U)

AT A RECENT MEETING THE OECD HIGH LEVEL GROUP ON COMMODITIES GENERALLY WENT ALONG WITH U.S. PROPOSALS ON A COMMON FUND. IT AGREED THAT AS AN INITIAL DC POSITION A FUND SHOULD BE BASED ON A POOLING OF FUNDS OF MEMBER COMMODITY AGREEMENTS, WITH A BACK-UP FACILITY THAT COULD BORROW ADDITIONAL FUNDS. A SIGNIFICANT PROPORTION OF EACH COMMODITY AGREEMENT'S MAXIMUM FINANCIAL REQUIREMENTS WOULD BE DEPOSITED WITH A FUND. SOME COUNTRIES, HOWEVER, FAVORED DIRECT CONTRIBUTION;.

A GREAT DEAL OF WORK REMAINS TO FLESH OUT THE DC PROPOSAL AND SOLIDIFY A CONSENSUS. IN THE COURSE OF DISCUSSIONS, A NUMBER OF THE SMALLER DEVELOPED COUNTRIES EXPRESSED THE VIEW THAT THE DC PROPOSAL SHOULD MEET LDC EXPECTATIONS, AND QUESTIONED WHETHER THE CURRENT PROPOSAL WOULD DO THIS. JAPAN REMAINED SILENT. THE AD HOC GROUP WILL MEET AGAIN OCT. 13-14.
CHRISTOPHER

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